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ASSOCIATED NATIONAL BANK

AND A

NATIONAL CLEARING HOUSE.

A PAPER BY HON. C. N. JORDAN OF NEW YORK CITY,

AND

A LETTER FROM MR. JOHN A. GANO

OF CINCINNATI.

READ AT A MEETING OF THE BANKERS' CLUB OF CHICAGO,
DECEMBER 8, 1888.

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DECEMBER 8, 1888.

C. H. BLAKELY & CO., PRINTERS,
CHICAGO.

BANKERS' CLUB OF CHICAGO.

GEORGE SCHNEIDER, *President*.
JOHN J. MITCHELL, *Vice-President*.
JAMES D. STURGES, *Secretary*.
JOHN C. NEELY.
E. G. KEITH.
WM. C. OAKLEY.

EXECUTIVE COMMITTEE
1888-1889.

At a regular meeting of the club, held on the evening of December 8, 1888, Hon. C. N. Jordan being present, read a paper, a copy of which is printed herewith.

The following is from the minutes of the meeting:

"The paper of Mr. Jordan appearing to be able and comprehensive and worthy of deliberate and careful consideration and study, it was *Resolved* that Mr. Jordan be requested to furnish the club a copy for publication, more especially for the benefit of its members."

The letter from Mr. Gano, also printed herewith, was read on the same evening, and seeming to be on a somewhat similar line of thought with the paper of Mr. Jordan, the Executive Committee have thought it well to incorporate it in the accompanying pamphlet.

JAMES D. STURGES,
Secretary.

AN ASSOCIATED NATIONAL BANK.

In presenting the scheme herewith submitted, permit me to say that I can make no claim to originality; but that, believing that experience is the best—in fact, the only guide of the Banker—I have tried to adapt the main features of the Banking Organizations known as the Banks of England, France and Germany, to the requirements of our political, governmental and geographical peculiarities as well as the financial past of the country will permit. Besides suggesting the formation of an Associated National Bank to take the place of the present Sub-Treasury, I have also, in view of the almost certain destruction of the National Bank Currency within the next two years, caused by the continuous issue of the silver certificates, attempted to furnish a scheme for the preservation of the best system of currency ever used by this or—I might almost say—any other country. It is not essential to the creation of the proposed Associated National Bank, but if the people desire the cheapest form of currency in daily use yet known to any commercial nation, to be perpetuated for their benefit, they will adopt some such scheme in order to preserve the country from the reverses and calamities of the past.

In proposing a scheme which shall do away with the Sub-Treasury, a great difficulty is to be met—which is, that a simple system cannot be devised, because of inter-state jealousies, and the violent and unfounded prejudices of our uneducated people, against the National Banking system; or rather against any banking system whatever. To discuss the baseless and unwarranted character of these jealousies and prejudices, with the causes, would need an essay, and you will, therefore, please take for granted the arguments which might be used in preparing the ground in favor of the present proposition. I will first state that which I think you will all grant—that the Sub-Treasury is, has been and will continue to be the greatest source of financial danger in this country, and like Carthage of old, must be destroyed, in order that we may enjoy, as far as possible, financial peace.

My proposition is that Congress shall cause to be established an "Associated National Bank," to be located in the City of New York, and organized, as near as may be, after the following manner:

The stock in this bank is to be taken by the banks of the country, at 5 per cent. of the existing bank (both State, if they choose to embrace the system, and National) capital, or capital and surplus—either in the proportion of their capital to population, or providing a specific sum (banks to be hereafter organized in the Southern States, or States poorly supplied at present with banking facilities, may be permitted to come in on the same terms—the surplus earnings, if any, equalized by rate at which the stock is taken) a certain preference being given to banks with reference to the amount of circulation issued by them in proportion to their capital. This would give to-day a capital of say \$30,000,000. All deposits of the Government should be made a preferred lien, the subscribing banks being liable for any deficit to the extent of such deficit, ratably to stock owned. This would give an additional security to the Government of say \$600,000,000 of banking capital, without reference to the existing surplus of the banks. The capital of the bank should be limited to forty millions of dollars, only to be increased from the actual preliminary subscription in the manner above provided, as to new banks in sections of the country now poorly supplied with banking capital.

This bank should have no right to issue currency except in time of excessive demand; such issue not to be made except when the rate of interest in New York City equals or exceeds 8 per cent., the bank to hold its rate of interest at that percentage during the issuance of the notes, and while they are outstanding—or, when issued under such circumstances, be entitled to offer from time to time such a rate of premium as will insure the quickest possible retirement of the notes issued by reason of this proviso.*

The bank shall receive all Government deposits, pay all Government interest, *receiving such compensation therefor as may be agreed on*; shall register the debt of the United States; shall do a general banking business, except that it shall not receive the deposits of persons or firms other than banks or bankers; will not

* The German provision upon this point defeats itself, as it provides no means for early retirement of the notes issued during a time of stringency, and the penalty—the payment of 10 per cent. to the Government—is too severe to induce an issue of the notes.

be permitted to pay interests on deposits;* may accept trusts; shall receive the deposits of the banks on account of the 5 per cent. redemption fund and "retiring circulation, failed, and reducing funds;" except that the sum of the "retiring circulation fund, failed and reducing banks" shall be secured by deposits of "unified legal-tender debt" hereafter to be described, or Government bonds as at present; these bonds, or any bonds held as security for this class of deposits, to be released as liabilities on these accounts are paid; may receive deposits of states, cities and municipal corporations, and pay their interest in the manner provided for the General Government; shall or may discount for other banks mercantile paper, or bills of exchange drawn on existing values; it may hold the deposits as "special deposits" of other banks in the city of New York, in order to serve as the holder of the Clearing House funds of the respective banks; the coin, or legal tenders, composing these funds shall not be included in its own reserve; may keep and open foreign accounts, being permitted (empowered) to make such provision therefor as it may deem necessary in London, Paris, Amsterdam, Berlin, Frankfort, and at such other points as it may desire to transact a general exchange business, whether in Europe or elsewhere; upon the agencies thus established (under satisfactory arrangements to be previously made) the banks throughout the country could draw or keep accounts. It shall keep 50 per cent. reserve on all liabilities, except the "retiring, reducing and failed" bank funds, which shall be secured by deposits of bonds, as hereinafter provided; 25 per cent. of which reserve may be held in sight exchange on London, Paris, Amsterdam, Frankfort or Berlin; it shall buy gold bullion at a rate to be agreed upon, make advances on silver and gold bullion, or gold and silver coins of other nations, at not to exceed 98 per cent. of their actual bullion value. It shall also act as the Redeeming Agent for the National Bank issues throughout the country.

The same provisions as to redemption as are now contained in the National Bank law shall apply to the notes issued under the proposed act, as hereafter provided, except that the percentage required to be kept as a redemption fund shall be deposited in the Associated Bank. The expense of printing, circulation and redemption, as well as of the National Currency Bureau, which is

* The bank, except as regards foreign banks and bankers, should not receive the accounts of other banks, except as provided on pages ———, the object to be attained being the endorsement as far as possible by a New York bank of the notes discounted by the Associated Bank.

to be transferred to New York, to be borne by the national banks, as provided in the National Banking law, the redemption being made in the city of New York. The 25 per cent. reserve banking clause to be stricken out as regards other cities, excepting San Francisco. The banks shall be exempt from tax on the circulation obtained under the proposed act. The national banks shall have the further right to issue notes upon special deposits with the Associated Bank (which can only be paid out for notes redeemed, and by check or verification of the Comptroller of the Currency) of standard gold bullion, gold coin of full weight and standard fineness, such as sovereigns, francs, marks, lire, or florins.* The small notes—say ones, twos, fives and tens, may be issued upon silver bullion and silver coins not less than 900 fine, but bullion and coin shall be rated at the value per ounce of 1,000 fine; and such deposits of silver shall only be available for bills not larger than \$10, and shall be redeemable in silver coin or gold, at the option of the banks. (The provision as to silver notes to be subject to future action of the English or associated governments.)

Its affairs shall be managed by a general manager, who shall have had as a bank officer at least seven to ten years' experience, or be nominated by the banks and nomination approved by the President, who shall serve until incapacitated, or be retired after so many years service, with pay proportional to length of service, and who will be subject to immediate dismissal if dishonest, notoriously incapable, or speculative; and a board of directors of not less than twenty-one in number, of whom seven shall be residents of the present reserve cities (or cities in which clearing houses may exist), as specified in the existing National Bank Act. These directors shall serve for terms of two, four and six years, by classes. Fourteen of them shall be elected from the city of New York, from among bank officers, members of the clearing house, and be presidents or cashiers, who shall have served at least seven years as such officers. This latter provision shall apply to the seven non-resident directors, who shall be elected by the clearing house banks in the respective reserve cities, or such as have clearing houses. The Government shall have the right at all times to examine the books of the bank, weekly reports of its condition shall be made, and a semi-yearly audit and statement of account shall be made, in the manner of the English banks, and by a com-

* This provision is intended to render unnecessary the re-coining, at great loss, which now takes place of foreign coin remitted to this country.

mittee appointed by the banks outside of the city of New York. The receipts from customs, etc., at New York City shall be deposited in the proposed bank, receivable and payable in coin, as now provided by law, unless such mode of payment be waived by the payor or receiver. The deposits of the Government at all other points than at New York shall be deposited in the national banks at the different points of deposit, which banks are to be associated through their clearing houses, which are to be given the necessary legal functions, and which deposits are to be secured by deposit of the securities provided by the proposed law; such deposits to be distributed pro rata among the banks belonging to the clearing houses in proportion to the amount of securities severally deposited by them. Any excess of deposits made over and above the bonds required of these banks as security for deposits to be immediately remitted to the Associated Bank at New York under the same penalties as now provided by law, and under the supervision and at the risk of the associated clearing house banks, they being liable for all deficits which may occur by reason of their neglect in requiring the proper amount of security.* The Associated Bank might serve as a clearing house for out-of-town checks, the clearing houses of the different cities receiving and paying for the items within a prescribed territory.

The sub-treasuries in the different cities to be retained as to form merely; their functions to be suspended for the term of three years, unless otherwise provided by Congress; but if through actual losses and inconvenience experienced by the people or Government in the transaction of daily business, it shall then be demonstrated that the change of system has not been successful, the sub-treasuries shall be revived, and the present system be continued.

The Associated National Bank shall be exempt from all taxation, both state, city and national, but as compensation for such exemption from local taxation, shall be required to do all the municipal financial business of the state and city, paying interest, registering debt, etc. (The bank shall not be subject to penalties

* The banks associated through their clearing houses, which could be incorporated for the purpose, giving each clearing house (the capital in bonds being paid in by the associated banks in each city) the power to receive and distribute Government deposits, but no other banking power, to each member in proportion to amount of bonds deposited by such member. The clearing house could authorize the receipt of Government deposits by banks within a certain distance from each city, taking from such banks such security as the incorporated clearing house thought proper, but always at the risk of such clearing house.

for usury; but the Board of Directors, by a two-thirds vote to that effect, may increase or diminish the rate of interest upon loans or ninety-day paper, or any less term, and shall not be permitted to discount or loan for a longer period than ninety days.)* Its directors may establish a "good service fund" for the benefit of the clerks and officers of the bank, and may establish such extra compensation for terms of service in the bank, exceeding ten, fifteen, twenty or twenty-five years, as may seem proper to them.

In case of the failure of any of the banks, owners of the stock of the Associated Bank at New York, the Associated Bank shall pay for and retire such stock at par and the accumulated surplus to the Comptroller of the Currency, and shall retain such stock, having the authority to issue it to any National bank which may be formed after the date of the passage of the proposed act, and not provided for therein. If no such transaction takes place within one year from the date of the purchase of the stock of the failed bank, then such stock shall be cancelled, and shall no longer be a part of the capital of the Associated Bank, at New York.

The bank should not be permitted to make any dividend exceeding 6 per cent. upon the capital until the surplus equals 50 per cent. of its proposed capital—it shall then declare 6 per cent. upon the capital to the banks as stockholders, and 3 per cent. upon the surplus of say \$15,000,000 to the Government, retaining all other surplus earnings until the surplus equals the capital, when the earnings shall be divided in the following manner: 6 per cent. to the banks as stockholders; 6 per cent. to the Government upon the surplus—say \$30,000,000; and the total excess to the holders of the stock. The Government would thus receive a fair compensation for the privileges granted the bank.

The charter to run for the term of thirty years, unless abrogated by joint assent of the Government and the banks, and subject to amendment at any time upon a similar basis.

Calling your attention to the statement as to the rapid disappearance of the National Currency made in my preliminary remarks, I further propose that the legal tenders, silver certificates

* The object of this proviso is that the same method of defining our specie reserves may be practicable, as is now used by the banks of France, Germany and England. To-day, owing to our usury laws, we are without any defense against a rapid drain of gold.

and gold certificates shall be retired, and in their place that a 2 per cent. bond be issued—except that the notes of all kinds retired be converted into a legal tender issue, only to be used under the circumstances to be pointed out hereafter. The consolidation thus effected would give, say \$158,500,000 gold certificates, \$240,600,000 silver certificates, and \$346,700,000 legal tenders—in all, say \$750,000,000, (including gold and silver certificates in the Treasury), of national bank currency—the notes only to be changed into their new form as the national bank currency takes the place of such notes. This would free for the Government \$332,000,000 of gold, and \$250,000,000 of silver—say \$582,000,000—which would be applied to the payment of the 4½ per cents, say \$180,000,000; the payment over to the bank of, say \$100,000,000 of the money due the banks on account of "reducing, retiring, etc." bank notes, they assenting thereto. The balance carried by the Government hereafter on its own account need not exceed \$50,000,000—total, say \$330,000,000. The excess, say \$250,000,000, could be applied to the purchase of the 4 per cent. bonds, of which there are \$680,000,000 outstanding. The Secretary should, however, be empowered to issue treasury warrants or bills, at such rate of interest as may be agreed upon from time to time, to meet any sudden emergency, and be accountable to the House of Representatives as to the necessity for such issue.

If the system proposed should be adopted in its entirety, it would save the nation \$10,000,000 per annum. The issue of the converted notes, or "unified national debt," would be made should any national bank notes fail to be redeemed according to the terms of issue, if not retired by the Associated National Bank. The issue of small notes—say *ones, twos and fives*—you may add tens—by the banks, redeemable in silver, would take up the silver paid into the bank by the Government, and while no profit would be made on that part of the issue by the banks, the profit would be made on the larger notes, if not taxed, as they should not be. The useless carting to and fro of the national bank notes would be saved, and the present costly method of handling these notes be obviated. By providing that the banks, upon deposit of coin and bullion, could extend their issues to any amount, the transfer of coin from point to point could be saved, with a corresponding reduction of the rate of exchange to the people, thus guaranteeing an ample supply of currency. By providing a reserve power of

issue in the Associated Bank, so that if money become dear, it could issue, say \$40,000,000 of notes in time of need, or such sum as might be needed, which should be withdrawn as soon as the need ceased; we can guard against excessive stringency at any time, and by providing for their return, excessive expansion. With these notes, and those issued by the national banks, we would have a flexible and automatic currency, protecting us against extremes of either need or excessive issues of paper money. The extravagant use of the public moneys would be repressed, if not avoided, and as I have said before, an annual expenditure of \$10,000,000 be saved to the country. I have not treated the silver phase of the proposed scheme, because I believe one of two things will happen—either we will be upon a silver basis before this change could be effected, or England will be compelled to come into an international scheme for an extended use of silver. So believing, I think this country can buy without injury \$24,000,000 of silver per annum, and take its chances as to its ultimate appreciation; one thing is certain, that if we fall to a silver basis, the Government can pay its obligations with the bullion so purchased at an apparent profit to itself—how it may result as to the nation is another and greater question.

My task is done, but it will afford me great pleasure to answer any objections or questions as to the nature or effect of the proposed changes in our financial system made in the course of the evening by me.

A NATIONAL CLEARING HOUSE.

CINCINNATI, DECEMBER 5, 1888.

JAMES D. STURGES, Esq.,

Sec'y Bankers' Club, Chicago.

DEAR SIR:

Your enquiries of 19th November, as to the proposition placed on the programme of the National Board of Trade, at its meeting in Chicago in November, from the Cincinnati Chamber of Commerce, in regard to the establishment of a National Clearing House for Banks addressed to Col. S. D. Maxwell, have as you will see by his note herewith, been politely referred to me.

I have pleasure in the endeavor to answer them.

You will observe that the proposition from the C. C. of C. contemplated the reference of the subject to a special committee. The discussion of it by gentlemen directly engaged in banking, as I infer are the members of your club, may aid materially in the work of that Committee, and I should esteem it a great favor if you can inform me of the results of the consideration they may give it.

The two essential things (if I may use that form of expression) to be attained by a National Clearing House are:

First. A clearance between leading business centers of exchange balances at minimum cost and least risk.

Second. The promotion of conservatism in banking with a view to elevating the standard of credit, not only among business men, but more particularly among the banks.

You are aware of the very damaging experiences we have had here in bank management within the last two years, and you may know personally or by tradition what bitterness came of vicious

bank management throughout our country before the establishment of the National System, and also how the commerce of the country was embarrassed by piracy in exchange.

Under the "First" of the "essential business" of a National Clearing House, the question is, if clearances of the banks at leading centers cannot, through their local Clearing Houses, by the instrumentality of a National Clearing House, be effected at stated periods in such a way that balances between those centers may be settled by a small remittance of currency (when needed) as compared with present remittances. It is probably not necessary to elaborate the advantages of such an achievement, if practicable. Besides this, it is quite possible perhaps to bring about a better system for the redemption of currency and for promoting the efficiency of the work of both the United States Treasury and of the Currency Bureau.

By the way of suggestion it may be well to crudely outline the operation thought to be possible in this part of the work of a National Clearing House. It would be that the National Clearing House be established at, say, Chicago. Its membership would comprise the Clearing Houses in Boston, New York, Philadelphia, Baltimore, Charleston, New Orleans, San Francisco, St. Louis, Chicago, Cincinnati, Minneapolis, and probably others. In the daily clearings of these constituent bodies, balances to credit or debit of each or all, to be declared, adjusted by telegraph at stated periods by the National concern, and remittances ordered by it according to local necessities. A similar process can be made to apply to redemptions and the retiring of the notes of liquidating banks.

Under the "Second" of the "essential business" of a National Clearing House Association the question is, if constituent membership in the, or rather a, National Association will not tend to promote needed caution and prudence in the management of the local associations. Surely it would seem as if the local clearing houses do assume, or at least ought to assume responsibility for the integrity of the banks that are in their respective associations. In the degree that they are responsible, banks everywhere are the better assured of the safety of their correspondents. Had there been in our own local Clearing House Association a sense of greater accountability for the Fidelity Bank in this city, that institution would never have acquired the power for evil that it had.

It seems to be reasonable to believe that there would result not only the conservatism desired, if the banks had such relation to one another as proposed, but there would be concentrated force to resist the menaces of suspected causes for financial disturbance and disaster. Even when disturbances were developed they could be stayed and quieted. There would be, in short, a unification of interest and purpose in having financial institutions properly conserve the welfare and safety of communities and thus of the country at large. With a people such as we are in our active progressive undertakings, so homogeneous in interest and so dependent on one another's prosperity, there cannot be omitted anything in the management of financial affairs that will tend to safety and sound credit. Solely in these ideas was the proposition referred to projected among the thoughtful men of business. In some form, the writer believes, it is both feasible and practicable.

I am sorry to take so much of your time, but you will bear with me, I trust, when I claim that it is in a good cause I have expressed myself, though not as satisfactorily as I should like.

If I may be of service to you in this or other matters, I shall be pleased to have you command me.

Most respectfully,

JOHN A. GANO.

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